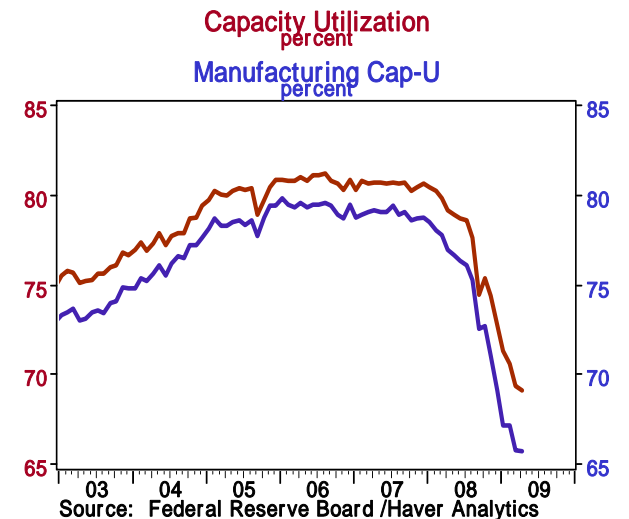
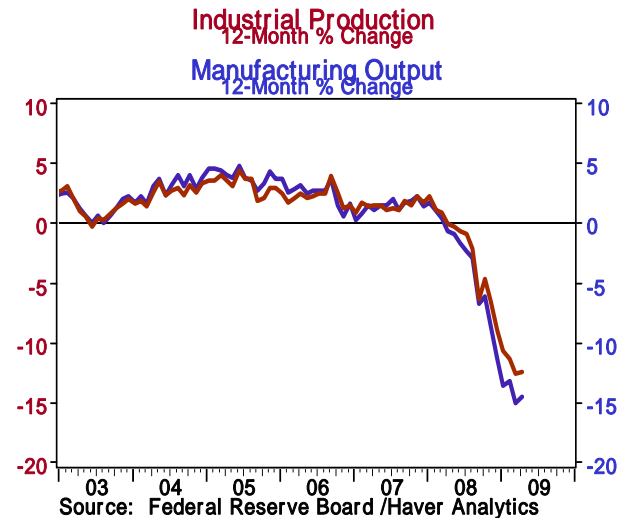


# APRIL INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production declined 0.5% in April, beating the consensus expected -0.6%. Production is down 12.5% versus a year ago.
- Manufacturing output fell 0.3% in April. Motor vehicle/parts production increased 1.2%, but output in the rest of the manufacturing sector declined 0.4%. Manufacturing output is down 14.3% versus a year ago.
- The production of high-tech equipment declined 0.8% in April but was revised up substantially in previous months. High-tech output is down 22.2% versus last year.
- Overall capacity utilization fell to 69.1% in April from 69.4% in March. Manufacturing capacity utilization declined to 65.7% versus 65.8% in March.

**Implications:** Industrial production fell less than the consensus expected in April and the decline in manufacturing outside motor vehicles/parts (which are volatile) was the smallest since last August. Many companies were still cutting production in April to deal with the overhang of excess inventories that developed late last year. We think the inventory correction will be finished by mid-year, at which point industrial production will start rising. This is consistent with our forecast that the economy bottoms and starts recovering in May. Typically, industrial production does not start rising until two months after the economy bottoms. In the auto sector, production has already started ramping up. The assembly of autos and light trucks (pick-ups and SUVs) has risen in each of the past three months and is up 31.5% versus the low in January. Even so, the level of production is still low enough so that auto dealers will be able to work off excess inventories. In other news this morning, the Empire State Index, a measure of manufacturing in New York, rebounded sharply for the second month in a row to -4.6 in May (the highest since August) from -14.7 in April. The recession is already over for the overall economy and is soon going to be over even in the manufacturing sector.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Apr-09	Mar-09	Feb-09	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>-0.5%</b>	-1.7%	-1.0%	-12.2%	-16.4%	-12.5%
<b>Manufacturing</b>	<b>-0.3%</b>	-2.1%	-0.1%	-8.6%	-18.5%	-14.3%
<b>Motor Vehicles and Parts</b>	<b>1.2%</b>	0.4%	8.5%	47.9%	-45.3%	-32.2%
<b>Ex Motor Vehicles and Parts</b>	<b>-0.4%</b>	-2.2%	-0.5%	-11.6%	-17.1%	-13.4%
<b>Mining</b>	<b>-3.2%</b>	-2.6%	-1.3%	-24.9%	-14.3%	-8.7%
<b>Utilities</b>	<b>0.5%</b>	1.8%	-6.9%	-17.7%	-1.7%	-3.2%
<b>Business Equipment</b>	<b>-0.5%</b>	-2.9%	-1.5%	-18.2%	-7.2%	-13.9%
<b>Consumer Goods</b>	<b>0.0%</b>	-0.3%	-0.2%	-2.0%	-9.3%	-6.6%
<b>High-Tech Equipment</b>	<b>-0.8%</b>	-1.9%	-2.0%	-17.1%	-26.7%	-22.2%
<b>Total Ex. High-Tech Equipment</b>	<b>-0.4%</b>	-1.7%	-1.0%	-11.9%	-15.8%	-12.1%
				3-mo Average	6-mo Average	12-mo Average
<b>Cap Utilization (Total)</b>	<b>69.1</b>	69.4	70.6	69.7	71.3	74.3
<b>Manufacturing</b>	<b>65.7</b>	65.8	67.2	66.2	67.7	71.3

Source: Federal Reserve Board

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